

A. Introduction

The Audit Commission ("Audit") conducted a review of the Quality Education Fund ("QEF") which focused on the following areas:

- governance and strategic management;
- administration of information technology ("IT") equipment projects;
- project management; and
- dissemination and commercialisation of project deliverables.

2. Hon Paul CHAN Mo-po declared that:

- he was a non-executive director of Breakthrough, which was a Christian youth organisation. Breakthrough had applied for QEF funding, but he was not involved in the application and operation of the QEF funded projects;
- he was the Chairman of Friends of Caritas. Some Caritas organisations and schools might have applied for QEF funding, but he was not involved in their operations; and
- he also sat on the advisory board of the accounting department of various universities, but he was not sure whether the departments/universities had applied for QEF funding.

3. Hon Abraham SHEK Lai-him declared that he had been a non-executive director of the Shakespeare 4 All Company Limited, which was a non-profit-making English teaching organisation, from September 2003 to January 2007. He was not involved in the organisation's operation and he did not know if it had applied for QEF funding.

4. Dr Hon Philip WONG Yu-hong, Chairman of the Committee, declared that he was a director of Chu Hai College of Higher Education, but he did not know whether it had applied for QEF funding.

B. Governance and strategic management

5. According to paragraphs 2.3 and 2.4 of the Audit Report, the QEF Steering Committee ("SC") had not laid down the frequency of meetings for the Dissemination and Promotion Sub-committee ("DPS"). Similarly, the QEF Investment Committee ("IC") had not stipulated the number of meetings to be held annually. Table 1 further revealed that on three occasions, the interval between meetings was more than six months. For instance, the interval between the two meetings of the Assessment and Monitoring Sub-committee ("AMS") held on 23-24 March 2004 and 14 October 2004 was as long as 6.7 months. The Committee asked:

- about the frequency of meetings of the SC and the AMS;
- how the Administration ensured that the AMS had sufficient participation in the assessment of funding applications under the QEF, given that the interval between some of the AMS meetings was excessively long; and
- about the internal control measures in place to ensure that the assessment process was fair and public funds were well spent.

6. **Mr Raymond WONG Hung-chiu, Permanent Secretary for Education, and Mrs Michelle WONG YAU Wai-ching, Deputy Secretary for Education,** stated that:

- it was true that on the three occasions identified by Audit, the intervals between meetings were unduly long. Normally, the SC and the AMS held meetings once every three months;
- there were different assessment procedures applicable to funding applications of different scales. For applications involving a grant not exceeding \$200,000, assessments were made once a month. An application would first be vetted by staff of the QEF Secretariat and then assessed by two AMS members by circulation of papers. The whole process would be completed in three months' time;
- for applications involving a grant of more than \$200,000 but not exceeding \$500,000, assessments were made once every three months by three AMS members, who would bring up their assessment results for discussion and approval at a meeting of the AMS;

- for large-scale applications involving a grant of more than \$500,000, they would first be assessed by eight AMS members and the project proposals would then be passed to all AMS members for consideration. Finally, the applications would be presented to the AMS for discussion and approval at its meeting. The whole process would be completed in five to six months' time; and
- the QEF Secretariat had a stringent mechanism for vetting all funding applications before they were considered by the AMS. After an application was forwarded to AMS members for consideration, though by circulation, there were still several rounds of discussions between the members and the QEF Secretariat staff. Moreover, the factors for consideration in assessing an application were already set out in the application form.

7. The Committee further enquired about the Administration's decision regarding Audit's recommendation on the stipulation of a minimum frequency of meetings for the IC and the DPS. **Mr Michael SUEN Ming-yeung, Secretary for Education**, responded in his letter of 1 June 2009 in *Appendix 17* that, subject to the endorsement of the SC at its meeting in July 2009, the IC and the DPS should conduct meetings three and four times respectively in each 12-month period.

8. The Committee noted from paragraphs 2.5 to 2.7 of the Audit Report that the QEF had not specified the quorum requirements for the meetings of the IC, AMS and DPS as well as the number of days prior to a meeting that discussion papers should reach members. Paragraphs 2.15 to 2.17 also revealed that although the SC, IC and DPS met, to a large extent, the criteria for adopting the two-tier reporting system for declaration of interests as set out in the guidelines issued by the Home Affairs Bureau, they only adopted a one-tier reporting system. The Committee asked how the QEF would rectify the situation.

9. The **Permanent Secretary for Education** stated at the public hearing and the **Secretary for Education** in his letter of 1 June 2009 that:

- the IC, AMS and DPS had all along followed the SC's practice on quorum requirement, but this was not documented. Subject to the SC's endorsement at its meeting in July 2009, the IC, AMS and DPS would document and observe the existing practice whereby the quorum should be constituted by at least 50% of the membership of the committee or sub-committees concerned. Moreover, the discussion papers for respective committees and sub-committees would be made available to members five working days before the meetings; and

- the Administration agreed that the SC, IC and DPS should adopt the two-tier reporting system for declaration of interests and would seek their endorsement in this respect.

10. According to paragraphs 2.11 and 2.12, the attendance rate of three members at the DPS meetings was on the low side, ranging from 29% to 47% since their appointment to January 2009. It appeared to the Committee that apart from their expertise and experience, the members' commitment to the work of the DPS was also important in order that the DPS's responsibilities could be fulfilled. The Committee asked whether the Administration would:

- take into account the attendance records of the members when considering their reappointment to the QEF committees and sub-committees; and
- consider devising a mechanism for publishing the attendance rate of members at the QEF committee and sub-committee meetings, such as on the QEF website, so as to allow monitoring by the public.

11. The **Permanent Secretary for Education** responded that:

- a member's attendance record was an important factor for consideration in deciding on the reappointment of a serving member to the QEF committees and sub-committees; and
- at present, the QEF Secretariat would remind those members whose attendance rate began to decline, hoping that they would make a greater effort to attend meetings. The QEF Secretariat would consult the committees and sub-committees regarding the proposal to publish members' attendance rate at meetings.

12. The Committee noted from paragraph 2.43 of the Audit Report that the QEF had not established any outcome targets and indicators that could help measure its effectiveness. Noting that since its establishment in January 1998 to August 2008 (i.e. end of the 2007-2008 school year¹), the QEF had approved 7,434 projects with grants amounting to \$3,620 million, which was a huge sum, the Committee asked how the Administration measured the QEF's effectiveness and ensured that the QEF achieved its objective.

¹ Unless otherwise specified, all years mentioned hereinafter refer to school years which commence on the first day of September.

13. The **Permanent Secretary for Education** said that it was difficult to measure the overall performance of the QEF because certain achievements could not be quantified. However, the QEF would seriously explore the feasibility of establishing performance measures, including the number of QEF funded projects that could achieve their preset targets and whether stakeholders were satisfied with the projects.

14. It was mentioned in paragraph 1.7 of the Audit Report that the QEF had identified project themes to address prevailing educational priorities. The QEF gave priority consideration to applications which were in line with the identified themes. Currently, there were 11 project themes, including moral and civic education, as well as national education. The Committee asked about the QEF's criteria and guidelines for deciding whether an application under a project theme, such as national education, should be approved and how the QEF evaluated whether the intended objectives of the approved project were achieved.

15. The **Permanent Secretary for Education** responded that:

- the QEF projects were school-based initiatives. The QEF encouraged funding applications from schools as they could initiate proposals that best suited their needs, circumstances and stage of development. In their applications, the schools were required to state the targets of the proposed projects. All applications were assessed in a fair and impartial manner. The QEF would consider whether the proposed projects met the QEF's objective of promoting quality school education, their impact on teachers and schools, feasibility, etc; and
- the purpose of introducing project themes was to address the prevailing needs of school education. Projects under the same theme could take a variety of forms and have various contents. Taking the project theme of "national education" as an example, some schools promoted national education through a school subject, while others promoted it by launching extra-curricular activities.

16. In response to the Committee's request, the **Secretary for Education** provided, in his letter of 1 June 2009, the number and percentage of projects approved as well as the amount and percentage of funding granted for each of the 11 project themes adopted from April 2008 to February 2009, as referred to in Note 3 in paragraph 1.7 of the Audit Report.

17. The Committee noted that whilst the primary objective of the QEF was to promote quality education at all levels, the proportion of projects and funding for the pre-primary sector was low. As commented by Audit in paragraph 2.39 of the Audit Report, the additional support given to the pre-primary sector might not have been fully effective in encouraging applications for the sector. The Committee enquired whether the QEF would consider setting a proportion of projects and funding for the pre-primary sector, or introduce other measures to ensure that pre-primary education would also benefit from the QEF.

18. The **Permanent Secretary for Education** replied that:

- the QEF had no intention to set a proportion of projects and funding for different sectors, including the pre-primary sector, so as not to limit the amount of funding that could be granted to well-deserved projects for different sectors; and
- the QEF would provide special support for those sectors that needed assistance. For the pre-primary sector, the QEF would take various measures, including the conduct of tailor-made consultation sessions and briefing for the front-line teachers of kindergartens and child care centres, with a view to helping them to apply for QEF funding.

C. Administration of IT equipment projects

19. The Committee noted from paragraphs 3.6 and 3.7 of the Audit Report that in April 2004, details of the QEF matching grant were deliberated by the SC. However, when seeking the Finance Committee ("FC")'s approval for the non-recurrent grant of \$126.5 million, the Administration did not provide information about the QEF matching grant in the FC paper (FCR(2004-05)27) of July 2004. As information about the matching grant was important to the FC in its consideration of the funding proposal, the Committee asked why the Administration did not explicitly provide the information in the FC paper.

20. The **Secretary for Education** and the **Permanent Secretary for Education** stated that:

- the Administration agreed that information about the matching grant was important and relevant to the FC's consideration of the funding proposal and should have been provided in the FC paper. In fact, in June 2004, one month before the FC meeting, during the discussion of the funding for the IT in Education Strategy at the meeting of the Panel on Education, the then Deputy Secretary (Education and Manpower) had informed the Panel of the matching grant. Having searched the records, the Administration could not find out

the reason why the information was not included in the FC paper. It was unfortunate that there was such an omission; and

- staff of the Education Bureau would be reminded to include all relevant information in the papers to the FC and other committees. The Administration would try its best to ensure that similar incidents would not recur in future.

21. According to paragraphs 3.11 and 3.12 of the Audit Report, in February 2007, the SC deliberated the introduction of a new project theme, namely "Use of new technology for school administrative work". Under this project theme, schools could apply for funding, e.g. installation of a smart card system to take student attendance, for reducing the administrative burden of teachers. Nevertheless, up to the end of 2007-2008, the QEF only received 429 applications. 425 applications totalling \$45 million were approved. About two-thirds of the 1,200 eligible schools had not yet applied for funding under this project theme.

22. The Committee queried:

- why the number of applications for funding under this project theme was so unsatisfactory, despite its clear target to alleviate teachers' workload; and
- whether the low application rate reflected that the Administration had not proactively encouraged schools to apply for funding under this project theme.

23. In his letter of 1 June 2009, the **Secretary for Education** stated that:

- "Use of new technology for school administrative work" was one of the annual project themes of QEF project applications and it was not a mandatory requirement for all schools to apply for projects under this theme. QEF projects were school-based initiatives that met the development needs and interest of the schools concerned. It was not expected that all schools would adopt such new technology in view of the different needs of individual schools;
- since the introduction of this project theme in March 2007, the QEF Secretariat had organised various activities to promote the theme, including annual briefing sessions for schools, and seminars for school sponsors and education bodies. Moreover, proposals of successful applications were posted on the QEF Cyber Resource Centre for reference of other schools; and

- the number of applications for this project theme was amongst the highest of all the project themes. The number of applications progressed steadily and the number of applications under this project theme had increased to about 500 in May 2009.

24. To ascertain the underlying reason for the low application rate under this project theme, the Committee asked:

- about the estimated recurrent costs of the smart card system;
- the procedure for applying for funding under this project theme; and
- whether the small number of applications was due to the high recurrent costs of the smart card system, which would not be borne by the QEF (as mentioned in Note 7 in paragraph 3.11 of the Audit Report), or the burdensome application procedure.

25. The **Secretary for Education** informed the Committee in his letter of 1 June 2009 that:

- the recurrent costs of the smart card system varied depending on the choice of system and vendor. The average yearly recurrent cost was about \$8,000 per school;
- the application procedure for applying for funding under this project theme was generally the same as that for other project types. In view of the nature of this project theme, the information details required from applicant schools had been simplified to facilitate applications;
- informal exchanges with schools revealed that some school heads had generally found the existing administrative and management computer system (i.e. Web-based School Administration and Management System) developed by the Education Bureau adequate in serving the needs of their schools and thus a new system with additional functionalities was not required. Some had expressed concerns over various administrative issues such as loss of the smart cards or students' misuse of the Octopus cards; and
- the QEF Secretariat would continue to address concerns of schools and encourage them to consider applying for funding under this project theme through further briefings and dissemination activities.

D. Project management

26. The Committee noted from paragraphs 4.4 to 4.10 of the Audit Report that the conditions of the QEF grant required grantees to report project progress regularly to the QEF. To ensure the timely submission of monitoring reports, the QEF Secretariat issued reminders to grantees and took follow-up actions. However, in 2007-2008, of the 1,613 monitoring reports due for submission, 861 (53%) were not submitted until the QEF Secretariat issued reminders. In paragraph 4.11(b), Audit recommended that the Secretary for Education should consider taking more effective measures to deter repeated delays in the submission of monitoring reports. For example, the QEF might take into account the number of first and second reminders issued when considering the assignment of an "unsatisfactory label" to grantees, or implement a retention money system for withholding grant payments.

27. The Committee further referred to paragraph 4.12 of the Audit Report in which the Secretary for Education said, among others, that the QEF Secretariat had to maintain the balance between the need to tighten the reminder system and the actual circumstances, and that the QEF would consider carefully the implications of the proposed retention money system on the grantees. It appeared to the Committee that the above response was not positive. The Committee therefore queried:

- whether the Administration sincerely accepted Audit's recommendations, which aimed to ensure the grantees' timely submission of monitoring reports and improve the effectiveness in project monitoring;
- about the factors that the QEF Secretariat would consider in maintaining the balance between the need to tighten the reminder system and the actual circumstances; and
- whether and how the QEF would implement the retention money system.

28. The **Permanent Secretary for Education** said at the public hearing and the **Secretary for Education** in his letter of 1 June 2009 that:

- the Administration recognised the importance of increasing the effectiveness and efficiency of project monitoring, which were mainly achieved by ensuring the grantees' timely submission of the progress reports and financial reports every six months, as well as administering the reminder systems for non-compliance cases;

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- there were two issues that some schools might encounter difficulties. First, in the actual implementation of the projects, there were always school-specific circumstances that might result in some unavoidable delay of the schools' original working schedules. Such circumstances might include the change of team membership because of staff turnover, and need to redeploy staff from the project team to address changes in priorities of the school during the school year. Second, the projects were normally led by serving teachers who had to deliver their daily teaching services in addition to the administration of the projects. There was room for improving the reporting system so that the teachers' workload in taking forward the QEF projects could be minimised while maintaining effective monitoring of the projects;
- against the above background, to maintain the balance between the need to tighten the reminder system and the actual circumstances, the QEF would examine whether it was appropriate to refine the existing arrangements under which all grantees, irrespective of the background (including the levels of grants they received, scale of projects and their track record), should follow the same six-month reporting requirement. The QEF would examine the feasibility of requiring some types of grantees that were of lower-risk or met certain specified conditions to submit progress reports and financial reports every nine or 12 months instead. For those grantees to which the six-month requirement should apply, the QEF would enforce the prevailing monitoring mechanism. Besides, as an overall strategy, the QEF would enhance the monitoring mechanism by spelling out clearly the consequences of late submission in its correspondence with the grantees from the early stage;
- regarding the retention money system, withholding grant payments would affect the grantees as they had to pay salary to the staff concerned and other expenses of the projects. If the amount to be withheld was large, small institutions would be deterred from making applications. Hence, a certain degree of flexibility was necessary. The QEF would consider the feasibility of holding up 5% to 10% of the non-staff-cost subsidy, which was to be released after the grantee had submitted the project-end final report and final financial report; and
- the QEF Secretariat would consult the SC on the proposed arrangements set out above.

29. Regarding the control over project expenditure, the Committee noted from paragraph 4.20 of the Audit Report that of the 23 applications for reallocation of funds approved from July 2007 to June 2008, 16 (70%) were applications for covering approval. In all the 16 applications, the QEF Secretariat did not issue any warnings to the grantees. The Committee enquired how the QEF Secretariat would tighten the control on reallocation of funds in future.

30. The **Permanent Secretary for Education** and the **Deputy Secretary for Education** stated that:

- the QEF would continue to remind grantees of the need to seek prior approval for fund reallocation; and
- the QEF Secretariat would issue a reminder to a grantee who failed to comply with the requirement. A grantee's record of failing to obtain prior approval would serve as a reference in evaluating its performance and affect its future applications for QEF funding. Such consequence would be stated clearly in the reminder issued to the grantee.

31. On the methodology for vetting the financial reports of projects, the Committee noted Audit's comments in paragraph 4.27 of the Audit Report that the QEF audit team should take into account the risk profile of different grantees (e.g. their management styles and internal control procedures) in determining the extent of vetting. The Committee asked how the QEF would implement the recommendation.

32. Noting that some staff of the QEF audit team did not have formal training in auditing or accounting, the Committee asked whether the Administration would consider enlisting the support of the Treasury or Audit to provide basic training to the staff concerned. The QEF might also consult the professional staff of the Treasury or Audit on how to implement the risk-based approach in vetting financial reports.

33. The **Permanent Secretary for Education** undertook to consider the above suggestion. He also stated that the QEF agreed with Audit that the audit team should adopt a more risk-based approach in vetting financial reports, so as to focus its efforts on vetting those that were more error-prone. There were professional accountants in the QEF audit team but their number was insufficient. The QEF would consider the ways to provide training to staff of the audit team and discuss with the professional staff how to take forward Audit's recommendation.

34. The Committee asked how the QEF monitored the grantees to ensure that the funded projects could achieve the objectives specified in the applications. The **Permanent Secretary for Education** explained that:

- the QEF requested the applicants to state in their applications the project objectives as well as the indicators for evaluating whether the objectives had been achieved. In assessing the applications, the QEF would take into consideration whether the indicators for evaluation were clear; and

- after a project had commenced, the QEF monitored its performance through various means, such as requiring the grantees to report on project progress. Monitoring visits to the grantees by QEF Secretariat staff and members of the SC and the AMS would also be conducted. The grantees might even be invited to present their projects to members of the SC and the AMS. When necessary, experts like the academics from universities would be invited to assist in monitoring the effectiveness of a project.

35. The Committee pointed out that whilst it was important to step up control over project expenditure and project management, in assessing whether a grantee's future applications for QEF funding should be approved or whether a grant payment should be made to a grantee as scheduled, apart from the grantee's degree of compliance with the QEF's guidelines and requirements, the QEF should also take into account the effectiveness of the previous projects launched by the grantee. The Committee asked whether the QEF had the practice of conducting surveys to gauge the beneficiaries' views on the effectiveness of a funded project.

36. The **Deputy Secretary for Education** responded that:

- during the implementation of a project, a grantee was required to submit half-yearly progress reports and interim financial reports until the project was completed. The grantee was also required to conduct self-evaluation on different areas according to the preset objectives of the project to measure if the objectives had been achieved. After the completion of the project, the QEF Secretariat would consolidate the self-evaluations by the grantee;
- in evaluating a project, the QEF would take into account the qualitative aspect, such as the project's impact on teachers and schools as well as the experience gained by the school head or teachers during project implementation; and
- the QEF would consider introducing other measures to gauge the effectiveness of a project, such as by conducting satisfaction surveys and questionnaire surveys.

37. The Committee appreciated that it was undesirable to measure the effectiveness of a funded project solely in a value-for-money perspective. Besides, too many rules and regulations would hinder creativity and increase the burden on the teachers leading the projects as they had to perform other teaching duties. Hence, a certain degree of flexibility in the application and reporting procedures was necessary. The Committee therefore asked:

- how the Administration would strike a balance between the need to maintain accountability in using public funds and the need to avoid creating undue workload for teachers and discouraging potential applicants; and
- whether the application and reporting procedures of the QEF applicable to school applicants were more lenient than those to commercial organisation applicants.

38. The **Secretary for Education** and the **Permanent Secretary for Education** said that:

- the Administration fully shared the Committee's concern and was working hard to strike a balance between accountability and avoidance of creating undue workload for teachers. In fact, the QEF procedures had been simplified following several reviews. For example, at present the QEF accepted applications on a year-round basis instead of by a fixed date, thereby reducing the pressure on teachers due to the need to meet the application deadline. On the other hand, the Audit Report highlighted certain areas for improvement in the QEF's administration which helped to upkeep accountability. The QEF would take follow-up actions as appropriate; and
- schools and commercial organisations were subject to the same application and reporting procedures. In assessing a funding application, an important factor for consideration was the merits of the proposed project.

39. On the management of assets, the Committee noted from paragraph 4.40 of the Audit Report that the QEF did not require grantees to report on the deployment of assets upon project completion. The Committee asked how the QEF would rectify the situation.

40. The **Deputy Secretary for Education** said that under the current arrangement, each grantee was required to keep an asset register showing the deployment of the assets of the project. Audit had identified the area for improvement in this regard, which was probably due to insufficient guidelines in this regard. The QEF would clarify the guidelines and follow up Audit's recommendation.

41. The Committee noted Audit's observation in paragraph 4.44 of the Audit Report that the Operation Manual had not adequately spelt out the guidelines and work procedures of the QEF. The Committee asked about the frequency of reviewing the Operation Manual, including when it was last updated and when the next update would be.

42. The **Deputy Secretary for Education** said at the public hearing and the **Secretary for Education** in his letter of 1 June 2009 that the Operation Manual was last reviewed in April 2008. Apart from the review, the Manual was also updated from time to time on a need basis, the last time being July 2008. The next annual review had been scheduled for July 2009.

E. Dissemination and commercialisation of project deliverables

43. Regarding the commercialisation of project deliverables, the Committee asked about the reason for implementing a commercialisation strategy, and whether such strategy was in line with the QEF's positioning of catering for worthwhile non-profit-making initiatives within the ambit of pre-primary, primary, secondary and special education.

44. The **Deputy Secretary for Education** explained that:

- the commercialisation strategy was implemented in 2003 when the QEF had been launched for several years. The experience accumulated indicated that many QEF deliverables should be shared among schools or even with users outside Hong Kong. However, schools interested in the project deliverables might not be given sufficient quantity of the deliverables. Also, the public might not know that there were good-quality QEF deliverables that suited them, or might not be able to acquire the deliverables even if they were interested in them. As such, the QEF considered that there was a market for its project deliverables and hence adopted a commercialisation strategy;
- in the past few years, the QEF was trying hard to widen the distribution network for its products, such as selling through post offices and the Government Bookstore on the Internet. However, some sales channels were not yet ready for various reasons. The QEF would continue to explore ways to widen the dissemination of QEF products so that they could reach a wider spectrum of potential users, particularly parents; and
- the objective of commercialisation was not to make profit, but to widen the distribution net and to ensure that the project deliverables were acquired by those in need. It was also decided that the prices of the saleable products should be pitched at a level affordable by the prospective clients and able to recover just the basic costs borne by the QEF.

45. According to paragraphs 5.21 to 5.24 of the Audit Report, in 2006, the QEF approved a grant of \$3.3 million for a commercial organisation (Grantee 6) to undertake a project to help enhance students' Chinese language ability and knowledge in Chinese culture (Case 6). However, the QEF had not established a clear and mutually agreed mechanism with Grantee 6 to ensure that it would charge fees at a reasonable and affordable level after completing its project. For instance, while Grantee 6 undertook to set the annual fee for using the reading platform at a level for its operation to break even, the QEF had not agreed with Grantee 6 on the types and extent of expenditure (e.g. administrative overhead) which the operation would bear.

46. As the cost of a project could include both direct and indirect costs, the Committee asked whether the QEF had agreed with Grantee 6 how its cost was to be determined. The **Deputy Secretary for Education** stated that as the project had just completed, the QEF was still discussing with Grantee 6 the level of services fees to be paid by schools for using the reading platform, with a view to ensuring that the fees would be reasonable and affordable.

47. The Committee further enquired:

- about the rationale for approving the project proposal of Grantee 6, which was a commercial organisation;
- about the current arrangements for setting the service fees charged by the Grantee 6 at a level which would be reasonable and affordable to schools; and
- whether the DPS had considered taking measures to ensure that, when entering into arrangements with commercial organisations for the commercialisation of QEF products, the products would be made available to schools at a reasonable and affordable price.

48. In his letter of 1 June 2009, the **Secretary for Education** informed the Committee that:

- the project proposal was supported in view of its innovative ideas relating to the development of e-resources, overall benefits to the education sector and its potential to sustain by commercial means the use of state-of-the-art technology in that new area of development;

- it was noteworthy that the SC had endorsed the Objectives and Plans of the QEF for 2006-2008 in which partnership with the private sector was one of the objectives (i.e. Objective 3 - "To encourage collaboration amongst schools, Government, non-government organisations and the private sector in the furtherance of quality education"). Under this objective, it was agreed that priority would be given to applications that encouraged or resulted in closer and more varied collaboration;
- the proposed service fees charging plan from the grantee would be vetted by the QEF Secretariat and circulated to the SC for endorsement. Any proposal should be considered with due regard to the contextual background of individual cases against the requirements of affordability and sustainability of the service;
- the main purpose for commercialisation was for wider dissemination of QEF deliverables, not for profit making. All business proposals for the commercialisation of QEF project deliverables would be deliberated by the DPS considering the reasonable pricing of the items to be commercialised and the benefits that the commercial activities would bring for the wider dissemination of QEF project deliverables. Moreover, the QEF Secretariat in general used the formulae as set out in Note 13 in paragraph 5.11 of the Audit Report for determining the retail prices of products sold via commercial outlets; and
- taking into account of the latest development of commercialisation, the DPS would consider taking further measures to ensure that the pricing strategy of QEF products would facilitate the availability of products to schools at a reasonable and affordable price. Proposed measures would be presented for discussion at the DPS meeting scheduled for October this year.

49. To obtain a better understanding of the policy on commercialisation of QEF project deliverables, the Committee asked:

- whether the part of the agreement between the QEF Trustee and Grantee 6 on QEF project deliverables, as referred to in paragraph 3 of Appendix H of the Audit Report, was based on any established policies or ad hoc considerations applicable to a project with commercial potential; and
- what the policies or considerations were and how they were determined.

50. The **Secretary for Education** responded in his letter of 1 June 2009 that:

- the general policy of granting QEF projects was that all deliverables generated from the projects should remain the exclusive property of the QEF and be made available to the beneficiaries concerned free of charge. However, if the grantee or a third party wished to invest in the redevelopment of QEF deliverables for commercial distribution subsequent to the project period, the existing policy was that the QEF could grant the right to use the copyright of the deliverables and charge royalty amounting to 10% of the proceeds of the commercial deliverables; and
- regarding Case 6 in the Audit Report, the AMS and the SC deliberated the case and developed the agreement on QEF project deliverables with reference to the general policy of granting QEF projects and the policy on commercialisation of QEF deliverables. It had been stipulated in the agreed project proposal attached to the agreement that the organisation should, among others, continue to provide users free-of-charge access to the 50 e-books; levy an annual service fee that was to be formulated on a balanced income and expenditure basis for using the additional functionalities of the e-platform; pay to the QEF a royalty amounting to 10% of the gross proceeds in respect of schools' use of the new e-books to be developed and the e-platform functions. The QEF would continue to monitor the service fee to be charged by the grantee and ensure that the agreed basis of charging was followed.

51. Turning to the copyright of QEF project deliverables, the Committee asked whether the copyright belonged to the QEF or the grantees concerned. The **Deputy Secretary for Education** said that the project deliverables could be a set of teaching materials and compact disks, etc. Having obtained legal advice, the QEF decided that it should own the copyright of the deliverables of the projects developed with QEF funding. This arrangement was stipulated in the agreement between the QEF and the grantee. The project deliverables might be distributed to interested schools or sold through various channels.

52. The Committee further asked:

- why the QEF considered it necessary to own the copyright instead of sharing it with the grantee who developed the project deliverables, so as to encourage creativity and attract application from commercial organisations;
- whether any project applicants and grantees had ever requested to retain the copyright of the project deliverables; and

- about the arrangement for the grantees to use or adapt the deliverables developed by themselves.

53. The **Deputy Secretary for Education** replied at the public hearing and the **Secretary for Education** in his letter of 1 June 2009 that:

- since the QEF Secretariat's implementation of the copyright policy, there had been no request from project applicants and grantees to retain the copyright of the project deliverables;
- to take forward the QEF's policy intent to disseminate extensively QEF products for sharing and promotion among stakeholders such as teachers and parents, as well as the general public, the QEF was the exclusive owner of the ownership and copyright of all deliverables so created as a result of the projects funded by the QEF. That arrangement aimed to facilitate editing, repackaging or commercialisation of QEF products for wider dissemination purposes, avoiding any users from infringing the copyright with possible legal liability;
- notwithstanding the above copyright arrangement, the QEF Secretariat had been implementing the following measures to facilitate the adaptation, distribution and further development or research relating to the QEF deliverables by different genuine users:
 - (a) allowing grantees to use any project materials beyond the project period as long as the use was in step with the project objectives stated in the project agreement; and
 - (b) granting relevant parties the right to use the copyright of the QEF project deliverables for other purposes subject to the individual merits of respective proposals. In the past, the QEF had granted licences to an organisation for the redevelopment of the teaching resources derived from two QEF projects with royalty payable to the QEF from the sale of the two teaching packages thus redeveloped. Besides, the QEF had also granted a contractor commissioned by the Education Bureau the right to use the QEF deliverables for producing free Chinese Language bridging course materials for non-Chinese speaking children; and
- the QEF would continue to implement the above measures to facilitate users in using the copyright of QEF deliverables as the case merited.

54. The Committee further asked about the number and percentage of project proposals by "commercial organisations" that had been approved since the QEF's establishment, and the nature of such organisations (e.g. non-governmental organisations).

55. In his letter of 1 June 2009, the **Secretary for Education** advised that since the establishment of the QEF in 1998, 99 projects had been granted to corporate organisations registered under the Companies Ordinance, accounting for 1.3% of the total number of QEF projects approved over the years. The 99 projects were from 54 organisations, 30 of which were of charitable organisation status, including three non-governmental organisations.

F. Conclusions and recommendations

56. The Committee:

Promotion of quality school education

- considers it is important that:

- (a) as the Quality Education Fund ("QEF") has been established for more than 11 years with the objective of promoting quality school education at all levels, the Administration should evaluate regularly whether and how the QEF on the whole and on a project basis has been able to achieve its objective; and
- (b) the application and reporting procedures of the QEF should be as simple and user-friendly as possible and in any event not be so burdensome as to become a disincentive to potential applicants and create undue workload for teachers, provided that accountability is not undermined;

Governance and strategic management

- expresses concern that:

- (a) the QEF Steering Committee ("SC") has not laid down the frequency of meetings for the Dissemination and Promotion Sub-committee ("DPS"). Similarly, the QEF Investment Committee ("IC") has not stipulated the number of meetings to be held annually;
- (b) the QEF has not specified the quorum requirements for the meetings of the IC, Assessment and Monitoring Sub-committee ("AMS") and DPS;

- (c) the QEF has not specified the number of days prior to a meeting that discussion papers should reach members, and 17 (50%) of the papers discussed at Committee and Sub-committee meetings in 2006-2007 and 2007-2008 were sent to members two calendar days or less before the meetings;
 - (d) the attendance rate of three members at DPS meetings was on the low side (29% to 47% from their appointment to January 2009);
 - (e) the SC, IC and DPS adopt a one-tier reporting system for declaration of interests, despite the fact that they meet, to a large extent, the criteria for adopting the two-tier reporting system set out in the guidelines issued by the Home Affairs Bureau;
 - (f) a QEF application involving a grant not exceeding \$200,000 is only required to be assessed by two AMS members by circulation of papers, and the AMS's participation in the assessment of such funding applications may be insufficient;
 - (g) the AMS's business plan for 2007-2008 did not provide an estimate of the financial resources required to accomplish the strategic objectives;
 - (h) the QEF's annual budget does not include the AMS's budget on grant payments;
 - (i) the proportion of projects and funding for the pre-primary sector was low; and
 - (j) the additional support given to the pre-primary sector might not have been fully effective in encouraging applications for the sector;
- acknowledges that:
- (a) the IC, AMS, and DPS have followed the SC's practice on quorum requirement. The QEF will document the practice and continue to observe the requirement;
 - (b) the QEF does not intend to set a proportion of projects and funding for different sectors, including the pre-primary sector, so as not to limit the amount of funding that can be granted to well-deserved projects for different sectors; and
 - (c) the Secretary for Education accepts the audit recommendations in paragraphs 2.8, 2.13, 2.18, 2.24, 2.32, 2.40 and 2.45 of the Audit Report;

- urges the Secretary for Education to:
 - (a) review the arrangement for assessment of funding applications, having regard to the need to increase the AMS's participation in the assessment of applications involving a grant not exceeding \$200,000 while maintaining the efficiency of the assessment process;
 - (b) proactively explore more effective ways to encourage applications from the pre-primary sector; and
 - (c) expeditiously implement the above audit recommendations;

Administration of information technology equipment projects

- regrets that although the details of the QEF matching grant were deliberated by the SC in April 2004, the Education Bureau did not provide information about the matching grant in the Finance Committee ("FC") paper (FCR(2004-05)27) of July 2004 when seeking the FC's approval for funding to implement the Information Technology in Education Strategy;
- expresses serious concern:
 - (a) that although the project theme "Use of new technology for school administrative work", introduced by the SC in March 2007, has a clear target to alleviate teachers' workload, up to the end of the 2007-2008 school year, about two-thirds of the 1,200 eligible schools had not yet applied for funding under this project theme; and
 - (b) about whether reception of the above project theme by eligible schools has been effectively monitored since its introduction two years ago, as there have only been informal exchanges with schools to find out the reasons for the low application rate;
- acknowledges:
 - (a) the Secretary for Education's admission that it was an omission on the part of the Education Bureau that information about the matching grant was not provided in the FC paper (FCR(2004-05)27) of July 2004;
 - (b) the number of applications under the project theme "Use of new technology for school administrative work" has increased to about 500 in May 2009; and
 - (c) the Secretary for Education accepts the audit recommendations in paragraphs 3.8 and 3.13 of the Audit Report;

- urges the Secretary for Education to:
 - (a) ensure that the Education Bureau will provide all relevant information to the FC when seeking its funding approval;
 - (b) take measures to address the concerns of schools about using new technology for school administrative work, so as to encourage schools to apply for funding under the project theme "Use of new technology for school administrative work"; and
 - (c) actively engage the potential beneficiaries of a project theme after its launching and carry out timely evaluation, so as to understand their concerns earlier and optimise the utilisation of the project theme;

Project management

- considers that it is of the utmost importance that a QEF funded project can achieve the intended objectives specified in the application. In assessing whether a grant payment should be made to a grantee as scheduled, the QEF should not only focus on the grantee's degree of compliance with the QEF's guidelines and requirements on project management, but also on the effectiveness of the project in achieving its objectives, particularly from the beneficiaries' perspective;
- expresses concern that:
 - (a) in 2007-2008, of the 1,613 monitoring reports due for submission, 861 (53%) were not submitted until the QEF Secretariat issued reminders;
 - (b) the QEF has not formalised the procedures for seeking endorsement of the relevant QEF authorities for variations of project deliverables;
 - (c) of the 23 applications for reallocation of funds approved from July 2007 to June 2008, 16 (70%) were applications for covering approval. The QEF Secretariat did not issue any warnings to the grantees in all the 16 applications;
 - (d) regarding the vetting of financial reports of projects:
 - (i) the number of financial reports pending vetting by the QEF audit team had increased from 205 at the beginning of 2005-2006 by 355% to 932 at the end of 2007-2008;

- (ii) the current methodology adopted by the QEF audit team for the vetting work is not conducive to focusing its effort on vetting financial reports that are more error-prone; and
- (iii) the QEF basically relied on its audit team to vet the financial reports of almost all projects. However, some staff of the audit team did not have formal training in auditing or accounting;
- (e) non-compliances with the General Guidelines issued by the QEF were noted during Audit Commission's visits to five grantees;
- (f) the number of field audits conducted by the QEF audit team decreased from 76 in 2005-2006 by 66% to 26 in 2007-2008;
- (g) the QEF does not require grantees to report on the deployment of assets upon project completion; and
- (h) the Operation Manual has not adequately spelt out the guidelines and work procedures of the QEF;
- acknowledges that:
 - (a) the QEF will continue to remind grantees of the need to seek prior approval for fund reallocation; and
 - (b) the Secretary for Education accepts the audit recommendations in paragraphs 4.11, 4.16, 4.21, 4.29, 4.37, 4.41 and 4.45 of the Audit Report;
- urges the Secretary for Education to:
 - (a) identify ways to simplify the reporting procedure of the QEF, so as not to create undue workload for the grantees;
 - (b) conduct surveys to gauge the beneficiaries' views on the effectiveness of a funded project;
 - (c) take into account the survey results and a grantee's record of seeking prior approval for fund reallocation in deciding whether a grant payment should be made to a grantee as scheduled and whether other QEF applications from a grantee should be approved;
 - (d) take effective measures to encourage prompt submission of monitoring reports, such as by linking the releases of grant payments with a grantee's timeliness in submitting reports;

- (e) adopt a risk-based approach in vetting the financial reports, taking into account the risk profile of different grantees in determining the extent of vetting; and
- (f) provide formal training in auditing and accounting to staff of the audit team;

Dissemination and commercialisation of project deliverables

- expresses concern that:
 - (a) the QEF does not require grantees to provide details of the mechanism for distributing project deliverables;
 - (b) the QEF has followed the 2005 pricing guidelines in setting prices for products sold via commercial outlets. However, the QEF Secretariat had not obtained the endorsement of the DPS for the 2005 pricing guidelines; and
 - (c) the QEF has not established a clear and mutually agreed mechanism with a commercial organisation (Grantee 6) to ensure that it would charge fees at a reasonable and affordable level after completing its project. For instance, while Grantee 6 undertook to set the annual fee for using the reading platform at a level for its operation to break even, the QEF had not agreed with Grantee 6 on the types and extent of expenditure (e.g. administrative overhead) which the operation would bear;
- acknowledges that:
 - (a) the QEF is discussing with Grantee 6 the level of service fees to be paid by schools for using the reading platform, with a view to ensuring that the fees would be reasonable and affordable; and
 - (b) the Secretary for Education accepts the audit recommendations in paragraphs 5.5, 5.14, 5.19 and 5.25 of the Audit Report;
- urges the Secretary for Education to:
 - (a) expeditiously finalise the discussion with Grantee 6 on the level of service fees to be paid by schools for using the reading platform and ensure that the fees are reasonable and affordable; and
 - (b) expeditiously explore measures to ensure that QEF products are made available to schools at a reasonable and affordable price when the QEF enters into arrangements with commercial organisations for the commercialisation of QEF products;

Follow-up actions

- wishes to be kept informed of:
 - (a) the decision made regarding the proposed review on the arrangements for assessing applications, having regard to the need to increase the AMS's participation in the assessment of applications involving a grant not exceeding \$200,000 while maintaining the efficiency of the assessment process;
 - (b) the ways identified by the QEF to encourage applications for the pre-primary sector;
 - (c) the measures taken to address the concerns of schools about using new technology for school administrative work, so as to encourage schools to apply for funding under the project theme "Use of new technology for school administrative work";
 - (d) the decision made regarding the proposed engagement of the potential beneficiaries of a project theme after its launching and carrying out of timely evaluation, so as to understand their concerns earlier and optimise the utilisation of the project theme;
 - (e) the ways to simplify the reporting procedure of the QEF, so as not to create undue workload for the grantees;
 - (f) the measures taken to encourage prompt submission of monitoring reports, such as by linking the releases of grant payments with a grantee's timeliness in submitting reports;
 - (g) the decision made regarding the proposed adoption of a risk-based approach in vetting the financial reports of projects;
 - (h) the result of the discussion with Grantee 6 on the level of service fees to be paid by schools for using the reading platform;
 - (i) the measures taken to ensure that QEF products are made available to schools at a reasonable and affordable price when the QEF enters into arrangements with commercial organisations for the commercialisation of QEF products; and
 - (j) the progress made in implementing the various audit recommendations.